Online Businesses Tax Morale in Supply Chain Relationships

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***Abstract*— The number of e-commerce (online) businesses is increasing in Malaysia, providing opportunities for digital business platforms to generate billions of ringgit in revenue. However, the businesses do not pay tax due to the absence of an efficient tax structure for this kind of supply chain management. The government will be looking at ways to tax individuals engaged in e-commerce (online) businesses to address its lost opportunity for revenue from a fast-growing segment of the economy. In addition, clearer guidelines are needed when there is a mixed supply chain operating within a holding company structure when it involves online business transactions. To combat such tax non-compliance by online businesses, it is essential to understand the levels of tax morale of these online businesses. Therefore, the purpose of this study was to unveil the level of tax morale of online businesses and to generate a tax morale framework for online businesses. Using a qualitative research methodology, the result of this study found four major levels of tax morale that are 'input', 'process', 'output' and 'outcome'. The 'input' level consists of tax knowledge, tax obligations and self-awareness. The 'process' level consists of the necessity to follow the business law and tax law, as well as the tax enforcement implemented by the tax authority. The 'output' level consists of the online business owners' trust towards the tax authority and government. Efficient correlation among the 'input', 'process' and 'output' levels of their tax morale will provide an effective 'outcome' in terms of voluntary tax payment to the tax authority that will bring benefit to the community in general. Based on the results obtained regarding the levels of tax morale of the online businesses, this research has developed the tax morale framework for online businesses.**

***Keywords*—** *Tax, Morale, Online, Business, Taxpayers*

1. Introduction

In recent years, the Malaysian government has worked tirelessly to achieve their goal of becoming a high-income nation by 2020. Through the government's Economic Transformation Programme (ETP), a number of key service industries have been heavily promoted and subsidized in order to make this goal become a reality, one of which is e-commerce [1]. The Inland Revenue Board of Malaysia (IRBM) has defined e-commerce (online) business as any commercial transactions conducted electronically including activity of providing of information, promotion and advertising, marketing, supply, order or delivery of goods and services; even though payment and delivery relating to such transactions may be conducted offline [2]. The e-commerce market in Malaysia has grown by 10.8 percent in 2016. With the help of Alibaba's Jack Ma appointed as Malaysia's Digital Economy Advisor, the government hopes to double this growth to 20.8 percent by 2020 [1]. The commercial transactions defined by the IRBM has reflected the importance of understanding the supply chain relations among online businesses where three or more businesses are directly linked by one or more of the flows of products, services, finances, and information from a source to a customer. Management of supply chain relations among online businesses is essential in terms of activities among the member businesses. In terms of tax payment responsibility, the tax morale of the business owners is important in this supply chain relation among online businesses.

With the growth of e-commerce (online) businesses, the potential for broadening the tax base for generating revenue from these businesses also increases. According to the former Second Finance Minister Datuk Johari Abdul Ghani, the government is studying the possibility of imposing tax on digital business platforms in order to create a level playing field between online and non-online businesses [2]. The Minister added that companies providing digital business platforms generate billions of ringgit in revenue but do not pay tax due to the absence of a tax structure for this kind of business. The government will be looking at ways to tax individuals engaged in digital or online businesses to address its lost opportunity for revenue from a fast-growing segment of the economy.

According to Tan Sri Mohd Irwan Serigar Abdullah, Secretary-General of the Ministry of Finance, the IRBM is doing a thorough evaluation and study to go into taxing individuals engaged in

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digital or online businesses as the income earn is taxable [4]. He added that it is a revenue loss for the government if nothing is done about it because going forward, more and more businesses will be sharing the digital economy. The tax department needs to be vigilant and go into new areas as the economy transforms. Policymakers need not only consider past experiences, but also need to look into the future more carefully, especially with regard to how technology is taking form and changing the way things are done to come up with policies to collect taxes from the new sources in that response. Pointing to local Uber drivers as an example, Irwan noted a recent survey by the Land Public Transport Commission which indicated that part-time Uber drivers could earn an average income of RM7,000 per month. He added that without a proper framework, however, the government would not be able to collect taxes from these local Uber drivers even though they fall within the tax bracket. In addition, Statista reports that e-travel is the largest segment of online business-to-consumer market in Malaysia [1]. This segment include mobility services and online travel bookings, and is set to generate over US$3.5 billion in revenue in 2016. The online purchase of goods will yield a further US$894 million. Finally, e-services, including food delivery services and online dating, among others, will add another US$260 million. The report showed that the high income generated by these online businesses provides potential high tax revenue collections for the government.

Despite the issues of insufficient tax policies and a proper framework for taxing the online businesses as discussed above, [5] suggested that taxpayers' willingness to cooperate is not only influenced by audits and fines, but also by internal factors. An internal factor that can increase voluntary compliance among the taxpayers is tax morale. Many researchers have argued that tax morale can help explain the high degree of tax compliance [6]. Hence, this research proposed that high level of tax morale among online businesses could help to increase voluntary tax compliance among them. This justifies the fundamental necessity of this research in developing a tax morale framework for Malaysian online businesses in order to move towards tax revenue sustainability in the long run.

To the best knowledge of the researchers, this study focused on the theoretical research gap where no study has emphasized on the tax morale of e-commerce (online) businesses. Although there are many studies on tax morale around the globe (see for example [7], [8], [9], [10], [11]), these studies did not focus on tax morale of e-commerce (online) business context. There are also studies on tax e-commerce and its framework but none of them incorporated the tax morale aspects in the e-commerce framework. For example, the Ottawa Framework Conditions on taxation and e-commerce has been the basis for the OECD work on e-commerce [12] and other countries such as US, Canada and Australia [13]. The framework however, does not integrate tax morale aspects but focus only on the tax system in general. This current study therefore integrated the perspectives of both tax morale and e-commerce (online) businesses. This study aims to unveil the level of tax morale of online businesses and to generate a tax morale framework for online businesses.

2. Literature Review

The concept of sustainability encompasses three dimensions, i.e. the economic, the social and the environmental dimension [14]. From the standpoint of taxation, an economically sustainable tax system should generate sufficient revenues to finance government activities. This includes curbing tax flight, i.e. legal tax avoidance and illegal tax evasion [15]. Not least, compliance costs and costs of tax collection should also be kept as low as possible. Meanwhile, a tax system that aims at contributing to environmental sustainability should discourage consumption and production activities that contribute to climate change and environmental degradation. A socially sustainable tax system should also minimize tax flight and be as transparent and simple as possible to ensure acceptability and legitimacy of taxation [15].

While these dimensions of sustainability are equally important, maintaining strong revenue flows is considered as a critical part of managing the government's fiscal position [16]. That could justify the urge for total compliance among the taxpayers. This is demonstrated through various compliance model (enforced compliance, voluntary compliance and cooperative compliance) adopted across countries. Irrespective of the compliance model, one cannot deny that tax morale has important role in such compliance behaviour. When everything remains constant, taxpayers may behave differently depending on their tax morale. This is particularly true in the case of voluntary compliance.

Tax morale was defined as an intrinsic motivation to pay tax [7]. [8] (p.301) describe tax morale as the "moral principle and values held by individuals about paying their taxes". Thus, explaining tax morale as a factor that influence tax compliance is difficult because there is no clear definition that describes tax morale. Hence, understanding the element that shapes it might be crucial. [17] stated that "Black Box" is being used to describe how most studies treated tax morale without given a clear picture of those factors that influence it. Additionally, in the words of [18] (p. 358), "Tax morale is the commitment to the responsibilities of citizenship and respect for the laws by the taxpayer". This definition shows that tax morale is fundamental to voluntary tax compliance.

[9] viewed voluntary tax compliance as the attitude of taxpayers that is being derived from impulsive willingness to corporate that emanates from having a sense of moral reasoning by taxpayers to contribute to public welfare. Based on these definitions, it can be concluded that strong moral values and taxpayer's sense of responsibilities are among the factors that influence the attitude of taxpayers in making the right decision about tax compliance. This goes in line with the fiscal psychological approach, which stated that voluntary tax compliance is being derived by external environment of the taxpayer and the intrinsic motivations [17]. [19] stated that the portion of tax compliance mechanism that was not attended by the deterrence theory created the platform that examines voluntary tax compliance. In Addition, [20] explained that tax morale is being made conceivable by the level of trust and the mutual understanding that co-exist between the government and the taxpayer. Hence, the tax morale of a taxpayer depends on the relationship between the government and the taxpayer.

Furthermore, empirical studies have pointed out that the extent of taxpayers' willingness to fulfil their tax obligations without being forced by the tax authority depends on their level of honesty [21]. This shows that honest taxpayers simply feel that there is a need for them to contribute to the provision of social service they enjoy. Taxpayer's moral attitude might also drive them toward compliance. Therefore, compliance behavior does not only depend on the enforcement mechanism put in place by the government alone but also includes the social-psychological factors [22].

Additionally, the emphasis that tax morale laid on the taxpayer's internal motivating factors such as social norms, personal values, cognitive processes and sense of moral reasoning to pay taxes can help to explain what motivates taxpayers to pay taxes [23]. Tax morale and voluntary tax compliance are moving hand in hand. According to [24], higher tax morale will signify increased voluntary tax compliance while low tax morale will lead to less voluntary compliance. Therefore, in order to increase tax compliance, there is a need to understand the causes of tax morale and inculcate it into the taxpayer's attitude.

Similarly, [23] observed that tax morale is being influenced by the socio-demographic factors. These factors are seen as critical determinants of taxpayer's morale. Tax morale has been linked with many socio-psychological factors such as social norm, perception of government and kind of fiscal exchange between the taxpayer and the government [25]. In this regard, it can be clearly seen that tax morale tries to explain how taxpayer's attitude affect their compliance decision. The focus of tax morale so far has been on those factors that affect taxpayer's attitude toward paying their taxes without being force to do so.

According to [6], there are three important elements that shape tax morale, which are individual's morale belief or sentiment, fairness perception, and relationship between taxpayers and the government. This signifies that tax morale may be influenced by the intrinsic motivation that arises because of personal values that guide individual behavior and compliance decision [11] and those extrinsic motivators that are being influenced by the external environment. However, elements that provide clear shapes of tax morale are still uncertain [10]. Therefore, tax morale remains the combination of intrinsic and extrinsic factors that motivate an individual to comply with tax laws.

Regarding the e-commerce (online) businesses, the internet has brought a tremendous revolution to the business world globally. The online transportation network service such as Uber, online video streaming service such as Netflix, online trading marketplace such as Alibaba, and online vacation home renting service such as Airbnb are no more 'strangers' to online shoppers. Consequently, the possibility to shop online fosters a huge change in consumer behavior, opening new areas of businesses and services. This advancement had enabled anyone to create an online business and reach a large consumer population easily and virtually. It is reported that overall internet use in Malaysia stood at 61 per cent of the population in 2011, one of the highest rates in the Southeast Asian region [26]. Businesses of all sizes can now compete against bigger traditional companies and quickly grab a large market share on the internet. Indirectly, this trend pushes traditional stores to move online and the new startups to think of selling online first in order to reach the Malaysian online shoppers that are growing bigger in numbers nowadays.

Based on report from the Ministry of Domestic Trade, Co-operatives and Consumerism, the online business volume has increased to RM5 billion or US$1.61 billion in 2014 and the e-commerce market in Malaysia grew by 10.8 percent in 2016 [4]. Together with the help of Alibaba's Jack Ma, recently appointed Malaysia's Digital Economy Advisor, the government hopes to double this growth to 20.8 percent by 2020. A number of innovative policies have been pushed by the government to make this happen, including the world's first 'digital free trade zone' which was conducted in March 2017.

According to Organization of Economic Co-operation and Development (OECD), online business transactions or known as e-commerce transaction means ‘the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders [27]. The goods or services are ordered by those methods, but the payment and the ultimate delivery of the goods or services do not have to be conducted online. An e-commerce transaction can be between enterprises, households, individuals, government and other public or private organizations. Unlike the traditional method of doing business, e-commerce incorporates unlimited accessibility, the velocity of access, a more extensive determination of products and services, openness, and worldwide scope.

Nevertheless, the OECD through its Taxation Framework Conditions highlighted that the taxation principles that guide governments in relation to conventional commerce should also guide them in relation to electronic commerce [12]. The principles are neutrality, efficiency, certainty and simplicity, effectiveness and fairness as well as flexibility. The OECD tax treaty model provides that the authorized jurisdiction to tax business income is given to the country that hosts the permanent establishment of the business i.e. fixed place of business through which the business of an enterprise is wholly or partly carried out. Therefore, the concept of permanent establishment has invited various debates under the e-commerce environment in order to determine the ‘fixed place’ criteria. This phenomenon has created challenges to the tax authorities and the business owners worldwide. Perhaps, due to this reason, since the beginning of online transaction of buying and selling of goods and services that is around 1990s, e-commerce transaction is not subjected to any tax [28].

From the Government perspective, especially the tax authorities worldwide, taxation of online businesses is complicated due to the nature of the business and the way it operates ([29], [30], [28], [31, [32]). The difficulties to tax e-commerce transactions and lack of proper tax structure have caused government to lose a huge amount of revenue that should be collected from the online businesses. For instance, the New Zealand Government admitted that the country had lost significant revenue associated with online and digital transaction and was determined to enhance enforcement efforts [33]. [32] emphasized that under perfect enforcement, the combination of sales and use taxes (as charged in the United States) imposes uniform statutory levies on transactions be it in e-commerce or in store shopping environment. They further stressed that the differences between these two ways of businesses arise in terms of administrative practices and compliance behavior. This is because under e-commerce transactions, buyers have more opportunity to evade taxes as compared to in store shopping thus requires exceptional treatment to tackle this problem. A similar deficiency occurs in South Africa. [34] reported that the South African Value Added Tax Act issued in 1991 need to be revised because its current format does not appear to deal with e-commerce transactions. The amendment is needed especially for transactions dealing with digitized products and virtual goods.

In Malaysia particularly, the concern on this problem have been highlighted by [35] in their investigation on the application of the Malaysian tax law related to permanent establishment concept in e-commerce context. The authors proposed that there is a need for Malaysian tax authority to issue a guideline on e-commerce taxation to handle the online businesses tax matters. Accordingly, [36] outlined possible problems related to e-commerce in Malaysia. Among others, tax administration is the highest potential tax problem, followed by tax evasion, double taxation, tax avoidance and tax-free areas. Later, in January 2013, the Malaysian Inland Revenue Board issued a “Guidelines on Taxation of Electronic Commerce” to provide guidance on basic tax issues and income tax treatment in respect of e-commerce transactions. The delay in issuing such guideline indicated cautious effort by the tax authority to tackle complex e-commerce transactions. The guideline has to be read together with the Income Tax Act (1967) and other relevant legislations and legal procedures that are in place. After the implementation of goods and services tax (GST) in Malaysia on 1 April 2015, the Royal Malaysian Customs Department had issued “Guide on E-commerce Services” on 18 December 2015. This guide is intended to provide a general understanding of the relevant treatment under Goods and Services Tax and aims to provide a better general understanding of taxpayers’ tax obligations.

In conclusion, there are many studies on tax morale (see for example [7], [8], [9], [10], and [11]); however, these studies did not focus on the tax morale of e-commerce (online) business context. There are also discussions on tax e-commerce framework by [12] and [33] in developed countries such as the US, Canada and Australia [13]. However, as far as the researchers' knowledge, none of them incorporated any tax morale aspects in the e-commerce framework. For example, the Ottawa Framework Conditions on taxation and e-commerce has been the basis for the OECD work on e-commerce [12] and other countries such as US, Canada and Australia [13]. The framework however, does not integrate tax morale aspects but focus more on the tax system in general. Since this study integrated both the perspectives of tax morale and e-commerce (online) business, a new dimension was investigated. Therefore, this study used both e-commerce (online) and tax morale elements available in the literature to guide in researching the tax morale of online businesses.

3. Methodology

This research examined the issue on tax morale of online businesses from a qualitative paradigm. The study uses a qualitative design because it allows data to be collected in the field at the site where participants experienced the issue or problem under study. Qualitative research enable researchers to gather up-close information by actually talking directly to people under study and seeing them behave and act within their context. This condition is very important especially in studying the internal values such as the tax morale of the respondents. This study used grounded theory method in order to achieve the research objectives of the study. Grounded theory study moved beyond description and generates or discovers a theory for a process or action. Grounded theory is a qualitative research design in which inquirer generates a general explanation (a theory) of a process, an action or an interaction shaped by the views of participants. Thus, grounded theory approach is the most suitable method used in this study in order to develop a tax morale framework for Malaysian online businesses.

To obtain both retrospective and real-time accounts of the phenomenon, interviews were conducted as a primary data source. The selection of respondents was based on the suggestion by [37] that the selection of the sample should be based on specific criteria. In this study, the main criterion was the suitability of the person in terms of being able to answer the enquiry, commonly based on experience, skills and knowledge. Engaging with these informants was viewed as crucial as it was anticipated that they could provide an in-depth and rich understanding of the issues through their experience. In this study, face-to-face interviews were conducted with the online business owners in Peninsular Malaysia. 12 online business owners from the northern region were interviewed in this study. The findings from the interviews were tape-recorded. The recordings were then transcribed verbatim and the data were used to build themes that were then developed into a typology of tax morale.

Qualitative gurus [38] have described data analysis as a continuous interplay between data collection and data analysis. Data analysis in qualitative is a creative process [39]. A qualitative research expertise stated that data analysis in qualitative is a process of making sense and that there is no one standard method of doing data analysis; however the ultimate reason is to make sense of the data [40]. Nonetheless, the process of analysis proposes "working intensively with your data, line by line, identifying themes and categories that seem of interest" (p. 158). This study used thematic analysis, which comprise of three stages i.e. data reduction, data display and conclusion. Each process involves three levels of abstraction in which the data are reduced at each level to form small groups based on similarities [41].

4. Result

This study has conducted a thematic analysis on the result of the interviews for developing a tax morale framework for online businesses. This study has allocated the results of the data collected from the interviews into three criterions, based on causal relationship between these criterions. These criterions are 'inputs', 'processes', and 'outputs' of tax morale.

The 'input' level consists of tax knowledge, tax obligations and self-awareness. Tax knowledge contains the knowledge needed by the online business owners in terms of tax laws and regulations. The results indicated that they do not have the full knowledge of the tax laws and regulations regarding their online business income. Participants have also indicated that their tax obligations do not depend on the tax laws and regulations. They are of the opinion that their obligation to pay tax depends on the transparency of their business to the tax authority, frequency of online business transactions, time provided for online business (part-time or full-time), income received from online business (fixed or unfixed), and the risk and punishment involve if they do not pay tax. In terms of self-awareness of tax morale, they demonstrated that willingness to pay tax depends on the integrity, honesty and responsibility of the business owners.

The 'process' level consists of the need to follow the business law and tax law, as well as the tax enforcement implemented by the tax authority. The participants know that they have to register with the CCM. However, the research result indicated that their perceptions about the duty to register with the tax authority were based on their own perceptions and not the tax laws. As for the tax enforcement needed for tax collection from the online businesses, the participants suggested that, the tax authority could do it through assessment of the bank accounts of the online business owners, assessment through the online shopping medias, as well as carry out the tax audit on the businesses.

The 'output' level consists of the online business owners' trust towards the tax authority and government. They suggested that the tax authority should give tax incentives and good taxpayer service to online businesses. In addition, the online business owners are of the opinion that the government have to be trusted in order for the taxpayers to be accountable for their tax payments. They indicated that a trusted government would bring benefit to their businesses.

The online business owners then projected that efficient correlation among the 'input', 'process' and 'output' levels of their tax morale will provide an effective 'outcome' in terms of voluntary tax payment to the tax authority that will bring benefit to the community in general. Based on the results obtained from this research regarding the levels of tax morale of the online businesses, the tax morale framework for online businesses was developed as shown in Figure 1.

5. Conclusion

In conclusion, the researchers are in the opinion that it is timely to conduct this study as the online businesses in Malaysia are growing rapidly in numbers. Being one of the most successful countries in Southeast Asia, Malaysia is a middle-income country that consistently shows a robust growth. Though the government has guided the country's development, Malaysia's economy is steadily opening and advancing fast towards technology and innovation. Guided by the government that aims at making Malaysia a high-income country by 2020 through an ambitious economic plan, the country's economy is destined for modernization. The economy is pushed towards higher value-added industries and services that are targeted for an increased well-being for its people. Therefore, the focus on the online businesses will contribute an immense potential income to the country.

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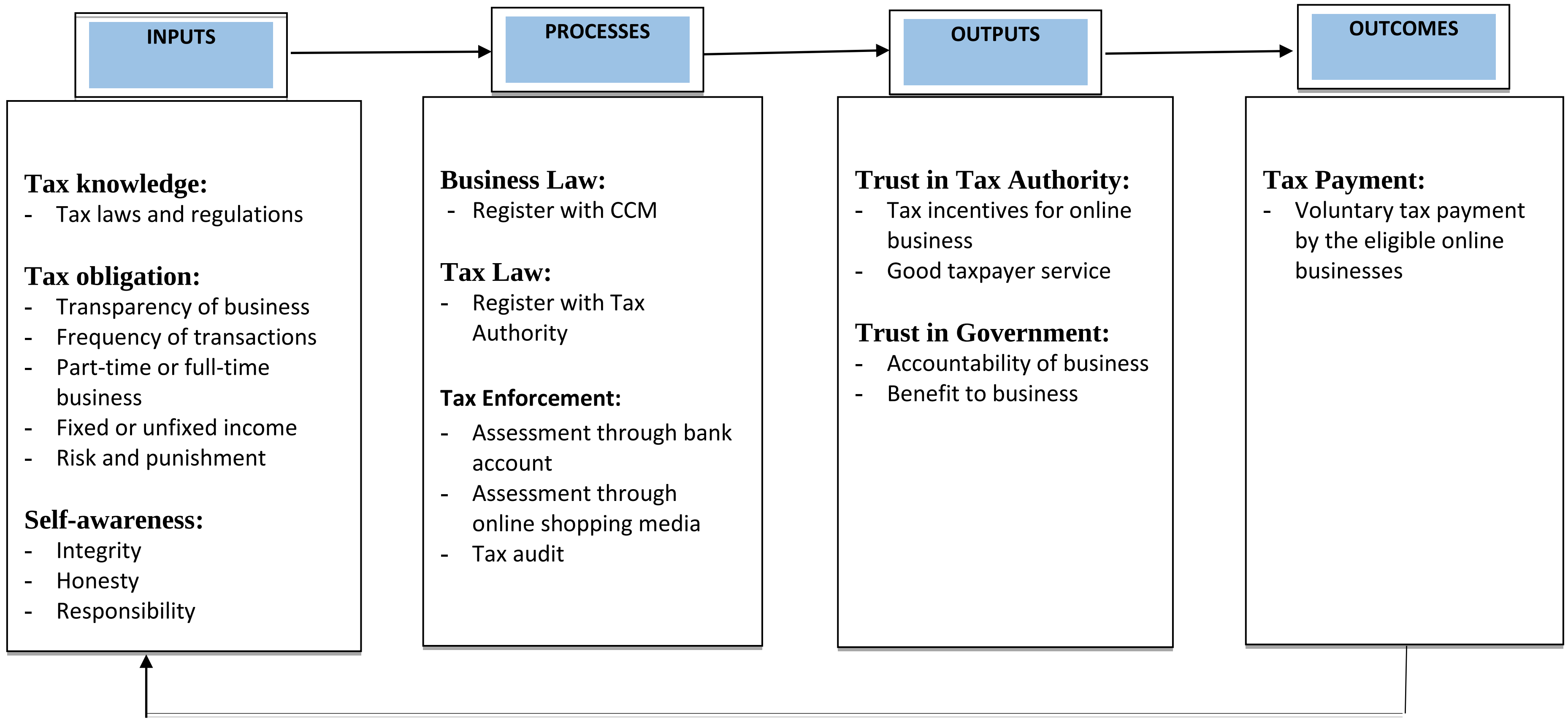

Figure 1. Tax Morale Framework for Online Businesses

Source: Authors